



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES**

February 9, 1999

**EDWARD B. HATCHETT, JR.
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Sarah Jane Schaaf, Secretary, Revenue Cabinet

Honorable Ronald W. Gilbert, County Judge/Executive

Honorable Shelby Ray Lakes, Lincoln County Sheriff

Honorable Earl Dean McWhorter, Former Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the former Lincoln County Sheriff's Settlement - 1998 Taxes as of February 9, 1999. This tax settlement is the responsibility of the former Lincoln County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Lincoln County Sheriff's taxes charged, credited, and paid as of February 9, 1999, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we have presented a schedule of Comments and Recommendations, included herein, which discusses the following areas of noncompliance.

- The Former Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$251,925 As Collateral To Protect Deposits
- The Former Sheriff Should Have Published The Tax Settlement

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In accordance with Government Auditing Standards, we have also issued a report dated August 23, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
August 23, 1999

LINCOLN COUNTY
EARL DEAN McWHORTER, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

February 9, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 384,727	\$ 698,914	\$ 1,611,044	\$ 613,158
Tangible Personal Property	22,455	32,646	76,891	45,736
Intangible Personal Property				41,473
Aircraft				97
Fire Protection	836			
Franchise Corporation	14,606	23,315	56,403	
Increased Through Erroneous Assessments	473	780	1,829	1,194
Adjusted to Sheriff's Receipt	273	317	562	(667)
Gross Chargeable to Sheriff	<u>\$ 423,370</u>	<u>\$ 755,972</u>	<u>\$ 1,746,729</u>	<u>\$ 700,991</u>
<u>Credits</u>				
Discounts	\$ 5,204	\$ 9,183	\$ 21,489	\$ 9,158
Exonerations	2,944	5,463	11,748	3,578
Transferred to Incoming Sheriff	76,373	140,681	316,125	127,965
Total Credits	<u>\$ 84,521</u>	<u>\$ 155,327</u>	<u>\$ 349,362</u>	<u>\$ 140,701</u>
Net Tax Yield	\$ 338,849	\$ 600,645	\$ 1,397,367	\$ 560,290
Less: Commissions *	14,688	20,617	20,961	24,100
Net Taxes Due	\$ 324,161	\$ 580,028	\$ 1,376,406	\$ 536,190
Taxes Paid	323,542	578,964	1,373,827	535,175
Refunds (Current and Prior Year)	619	1,068	2,583	1,015
(Refunds Due Sheriff as of Completion of Fieldwork)	<u>\$ 0</u>	<u>** \$ (4)</u>	<u>\$ (4)</u>	<u>\$ 0</u>

* and ** See Page 4

LINCOLN COUNTY
EARL DEAN McWHORTER, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
February 9, 1999
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,206,609
4% on	\$	143,081
1% on	\$	140,094
1.5% on	\$	1,397,367

** Refund Due From

Ambulance District	\$	<u>(4)</u>
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The accompanying notes are an integral part of the financial statement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

February 9, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The former Sheriff's tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 1998, the uncollateralized amount on deposit was \$251,925. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENT
 February 9, 1999
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 1998.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,012,749
Uncollateralized and uninsured	<u>251,925</u>
Total	<u>\$ 2,264,674</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 21, 1998 through December 31, 1998.

Note 4. Interest Income

The former Lincoln County Sheriff earned \$5,306 as interest income on 1998 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

LINCOLN COUNTY
EARL DEAN McWHORTER, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

February 9, 1999

STATE LAWS AND REGULATIONS:

- 1) The Former Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$251,925 As Collateral To Protect Deposits

The former Sheriff's deposits were not adequately secured by \$251,925 as of December 10, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The former Sheriff should have required the depository institution to pledge sufficient securities as collateral to protect deposits at all times.

Management's Response:

None

- 2) The Former Sheriff Should Have Published The Tax Settlement

We noted that the former Sheriff had not published the annual tax settlement. Per KRS 134.310, the settlement shall be published pursuant to KRS Chapter 424. The purpose of the publication is to provide the public information concerning their government operations. We recommend the Sheriff's office have the tax settlement published annually.

Management's Response:

None

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None

PRIOR YEAR:

The Sheriff should have required the depository institution to pledge additional securities as collateral. This comment is repeated in the current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Ronald W. Gilbert, County Judge/Executive
Honorable Shelby Ray Lakes, Lincoln County Sheriff
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Members of the Lincoln County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Lincoln County Sheriff's Settlement - 1998 Taxes as of February 9, 1999, and have issued our report thereon dated August 23, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Lincoln County Sheriff's Settlement - 1998 Taxes as of February 9, 1999 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Ronald W. Gilbert, County Judge/ Executive
Honorable Shelby Ray Lakes, Lincoln County Sheriff
Honorable Earl Dean McWhorter, Former Lincoln County Sheriff
Members of the Lincoln County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 23, 1999

